# KAZAKHSTAN

## Highlights

- **The economy is contracting in 2020.** Real GDP fell by 2.8 per cent year-on-year in the first three quarters of 2020, driven by weak domestic and external demand caused by lower commodity prices, a cut in oil production, as well as Covid-19-related disruption of domestic economic activity.
- **The government has put in place a comprehensive anti-crisis package.** The list of adopted measures is extensive and includes liquidity support to individuals, firms and the banking sector, and extra spending on healthcare and public works.
- **Progress has occurred on longer-term diversification of the economy and the renewable energy reform agenda.** The government rejected a proposal to introduce local content premia in the renewable energy sector and, in August 2020, issued a green bond on the Astana International Exchange, representing the first listing of green bonds in Kazakhstan.

## Key priorities for 2021

- **The immediate priority is to continue providing support to sectors affected by Covid-19 disruptions and sustain private sector employment.** To help businesses stay afloat, support measures should combine tax/liquidity measures to smoothen income shocks and boost consumption in the hardest hit sectors, such as recreation and hospitality. Measures should be well-targeted to optimise the use of scarce financial resources.
- **The authorities should step up efforts to build resilience.** The healthcare system’s capacity should be further strengthened with an emphasis on commissioning new hospitals, and increasing supply of medical equipment. To further food security, it is also desirable to improve the organisation, and enhance the climate resilience, of the agriculture sector.
- **Efforts are needed to improve inclusion across regions and for vulnerable population groups.** Reforms in education and vocational education need to accelerate, with a focus on digital skills. The government should take advantage of the opportunities offered by rapid advances in remote working and learning to improve the quality of training and education, and boost job creation in the modern sector of the economy.

Main macroeconomic indicators %

| | 2016 | 2017 | 2018 | 2019 | 2020 proj. |
|---|---|---|---|---|---|
| GDP growth | 1.1 | 4.1 | 4.1 | 4.5 | -4.0 |
| Inflation (average) | 14.6 | 7.4 | 6.0 | 5.2 | 6.8 |
| Government balance/GDP | -4.5 | -4.3 | 2.6 | -0.6 | -5.0 |
| Current account balance/GDP | -5.9 | -3.1 | -0.1 | -3.6 | -4.0 |
| Net FDI/GDP [neg. sign = inflows] | -12.5 | -2.8 | -0.1 | -2.0 | -0.5 |
| External debt/GDP | 118.5 | 100.7 | 90.0 | 87.5 | n.a. |
| Gross reserves/GDP | 21.6 | 19.3 | 18.1 | 16.1 | n.a. |
| Credit to private sector/GDP | 33.0 | 29.2 | 25.9 | 24.5 | n.a. |

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## Covid-19: macroeconomic implications

**The outbreak of the coronavirus crisis and the subsequent collapse of commodity prices has put the economy under pressure.** On the external side, Kazakhstan faces lower commodity prices and lower demand for its exports. In line with its OPEC+ commitments, Kazakhstan agreed to reduce domestic oil production by around 6 per cent year-on-year in 2020. At the same time, domestic containment measures undertaken by the authorities to reduce the spread of the virus are negatively weighing on private consumption and investment. Nevertheless, the economy is reasonably resilient to external shocks, thanks to significant fiscal buffers.

**Real GDP contracted by 2.8 per cent year-on-year in the first three quarters of 2020.** With the state of emergency declared on 16 March until 1 June, and mild quarantine re-introduced from 1 July until mid-August, the retail trade, transport and hospitality industries were strongly affected by the lockdown. Trade and transportation declined by 9.5 per cent and 17.1 per cent year-on-year, respectively, in the first three quarters of 2020. Construction, however, continued to grow during the same period (up by 10.5 per cent year-on-year). Fixed investment declined by 4.9 per cent year-on-year in the first three quarters of 2020, mostly due to investment into the Tengiz oilfield being put on hold due to Covid-19. This has led to a contraction in imports, primarily of capital goods, generating a current account surplus in the first half of 2020 of around US$ 2.1 billion (3 per cent of GDP) versus a deficit of US$ 1.9 billion a year earlier.

**The exchange rate depreciated in response to lower oil prices.** A depreciation of 15 per cent in the first three months of 2020 prompted the central bank to raise the policy rate from 9.25 per cent to 12.0 per cent in March 2020 and intervene in the foreign exchange market. In addition, the government instructed state-owned enterprises to sell their export earnings in the domestic foreign exchange market. After exchange rate pressures subsided, the policy rate was lowered to 9.5 per cent in April and 9.0 per cent in July 2020. As of October 2020, the Kazakh tenge/US dollar rate is down 11 per cent since the start of the year.

**A moderate recession in 2020 is expected to be followed by a rebound in 2021.** Real GDP is expected to contract by 4 per cent in 2020 before growing by 3 per cent in 2021. The upturn next year will be supported by recovery of private consumption and higher oil prices, but significant downside risks remain, notably a possible resurgence of the pandemic which would likely keep oil prices depressed in the short term.

## Policy response to Covid-19

**The authorities put in place a comprehensive crisis mitigation package.** In May 2020, the government approved a Comprehensive Plan for Economic Recovery in 2020, worth about 9 per cent of GDP. The list of adopted measures is extensive, covering liquidity support to individuals, firms and the banking sector, as well as spending on healthcare and public works. To finance this, the government increased the guaranteed transfer from the National Fund by KZT 2 trillion (US$ 4.7 billion) and intends to issue bonds, including in roubles, on the Moscow Exchange and Astana International Exchange. In addition, the government received a US$ 1 billion assistance package from the Asian Development Bank to help mitigate the health, social and economic impacts of the Covid-19 pandemic. The authorities plan to introduce further measures in case of prolonged economic disruption.

**Government support to individuals includes cash payments to the self-employed and unemployed, an extension of the social safety net and programmes to create more jobs.** Cash transfers amounting to the minimum wage of around US$ 95 per month were made to around 4.5 million affected individuals during the state of emergency starting from March 2020. The government raised pensions and social benefits by 10 per cent and provided food and utilities support. Furthermore, 2.7 per cent of GDP has been allocated to support employment under an "Employment Roadmap" programme, aiming to create 242,000 jobs through implementation of large-scale infrastructure and construction projects. The government also introduced a subsidised mortgage programme for young families (that is, those married for less than three years). In order to ensure food security, the authorities resorted to wheat and flour export quotas and banned exports of such foodstuffs as buckwheat, potatoes, sugar and sunflower oil in March to June 2020.

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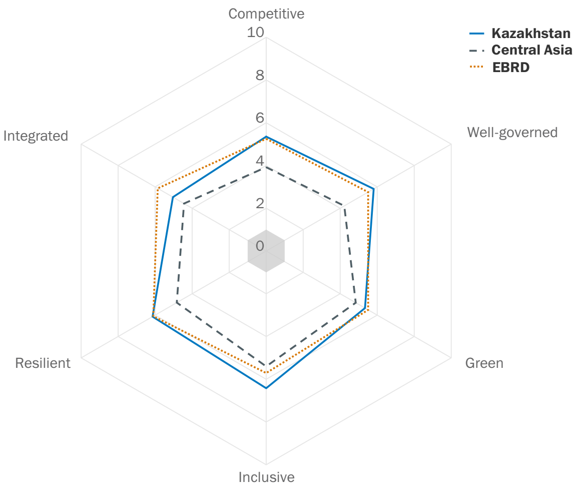
**Firms were helped by tax exemptions and incentives, concessional lending and loan deferrals.** The government is supporting import-substitution activities by manufacturing and agribusiness firms through subsidised lending of 1.5 per cent of GDP under the State Programme "Economy of Simple Things". Additional financing of 0.6 per cent of GDP is made available to small and medium-sized enterprises (SMEs) to finance short-term working capital needs. Farmers are offered forward contracts and fuel subsidies on top of concessional lending. Fiscal measures include exemption from income tax and social payments for six months, tax deferrals and value-added tax reduction on essential food products from 12 per cent to 8 per cent. Moreover, eligible borrowers are granted loan repayment deferral by banks and other lenders.

**Prudential requirements have been loosened to encourage bank lending.** In March 2020, the financial market regulator lowered risk weights for SMEs for loans in local currency from 75 per cent to 50 per cent and for loans in foreign currency from 100 per cent to 50 per cent. The regulator also reduced the liquidity coverage ratio requirement and the capital conservation buffer. The list of eligible collaterals for lending was expanded. Overall, as confirmed by the asset quality review (AQR) completed in February 2020, Kazakhstan's banking system is not facing serious downside risks, as capitalisation is sufficient both at the systemic level and at the level of the 14 individual banks included in the AQR.

Assessment of transition qualities (1-10)




## Structural reform developments

**Two new agencies were set up in September 2020 to give a fresh impulse to economic reform.** These are an Agency for Strategic Planning and Reforms and an Agency for the Protection and Development of Competition. The former will include the Committee on Statistics and the Supreme Presidential Council for Reforms, whose decisions will be final. The latter will play a key role in regulating "monopolistic players" and in bringing order to "commodity trading", particularly in the areas of oil products, electricity and coal.

**Privatisation of several key assets has been postponed.** Due to the pandemic and the associated decline in market sentiment, initial public offerings (IPOs) of KazMunaiGas (the national oil and gas company), Air Astana, KazPost and Kazakhstan Temir Zholy (the national railways), initially planned for early 2020, were postponed until 2021-23. Kazatomprom, the national nuclear company of Kazakhstan, was the first "blue chip" to be partially privatised via IPO on the London

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Stock Exchange and at the Astana International Financial Centre in 2018-19. In June 2020, the authorities sold another 6.3 per cent stake in Kazatomprom, leaving the remaining government stake at 75 per cent. In addition, the government aims to proceed with the sale of KazPost to a strategic investor by the end of 2020.

**The government remains committed to longer-term diversification and a renewable energy agenda.** The government is revising its Strategic Development Plan 2025 to address new development challenges and opportunities in the post-Covid-19 world, with a strong emphasis on digitalisation, investing in human capital and diversifying the economy. And although coronavirus risks diverting attention away from climate change mitigation, the authorities are pressing ahead with renewable energy reforms. In April 2020, the government rejected a proposal to introduce local content premia in the renewable energy sector as it contradicts the country's commitments under the Enhanced Cooperation Agreement with the European Union, World Trade Organization terms and other international agreements. In addition, a new methodology for regulatory asset-based tariffs was approved in May 2020, ensuring gradual repayment of the capital invested, including an estimated return on capital. Furthermore, a green bond was issued by Damu Fund on the Astana International Exchange in August 2020 – the first listing of green bonds in Kazakhstan. This represents an important step towards developing a green economy.

**A landmark public-private partnership (PPP) project is set to begin.** In August 2020, the financial closure of Big Almaty Ring Road (BAKAD) marked the conclusion of an eight-year effort to put in place the legal framework for foreign-invested, international-standard PPP projects in Kazakhstan. The largest infrastructure project in Kazakhstan outside the oil and gas sector, BAKAD, involves the construction of a 66 km ring road around Almaty. The project will be implemented by a Turkish-Korean consortium, and financed by the EBRD, Bank of China, PGGM, the Eurasian Development Bank and the Islamic Development Bank. Once completed, it is expected to help remove a major transport bottleneck in Almaty and increase the transit throughput capacity, while reducing local air pollution.